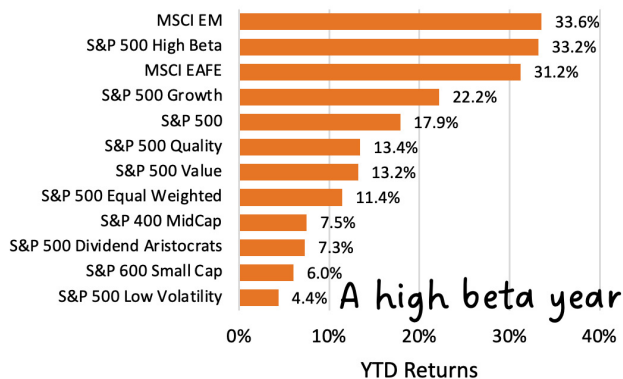




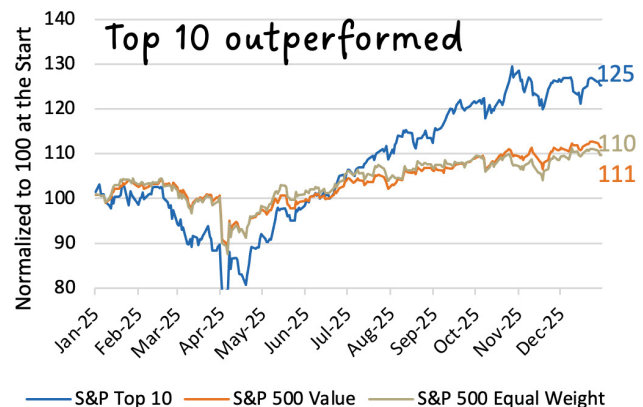
- ▶ The S&P 500 rose 17.9% in 2025, extending gains from prior years, though at a slower pace than the outsized returns seen in 2023–24.
- ▶ The year was dominated by the largest stocks. The top 10 stocks in the S&P 500 returned 25.4% and accounted for roughly half of the index's total return. Based on Q4 consensus estimates, these companies are expected to deliver approximately 35% weighted average earnings growth, indicating that their outperformance was well supported by fundamentals. All 10 stocks had market capitalizations exceeding \$1 trillion (a first).
- ▶ 9 of the top 10 performers were technology or technology adjacent companies (such as Amazon and Meta). While this concentration echoes the late-1990s/early-2000s tech cycle, a key difference is that today's leaders are supported by strong earnings and cash flows, rather than speculative expectations.
- ▶ The top 10 companies are also much less economically sensitive. Economic indicators have been much less useful in timing the market than they have in the past.
- ▶ The equal-weighted S&P 500 returned 11%, a respectable return historically, but it significantly lagged the cap-weighted index. This was the third consecutive year of equal-weighted underperformance. Earnings differences help explain some of this underperformance, but the primary driver was multiple expansion for the cap-weighted index. While the mega cap companies grew alongside earnings, there were more speculative moves in other stocks near the top of the index, such as Palantir, AMD, Caterpillar, and GE.
- ▶ 2025 exhibited characteristics of a late-cycle bull market with elevated volatility, including sharp selloffs and quick recoveries. Weakness early in the year was tied to geopolitical and tariff concerns, followed by a fast rebound, consistent with late cycle volatility.
- ▶ At the start of the year, the bottom-up consensus was calling for 12% S&P 500 EPS growth. Based on 4Q estimates, earnings are likely to grow 13% or more. We had expected high single-digit earnings growth, reflecting skepticism that margins could expand sufficiently amid moderating economic growth. Instead, economic activity strengthened in 2025, allowing margins to expand and earnings to exceed expectations.

Total Returns for Selected Indexes



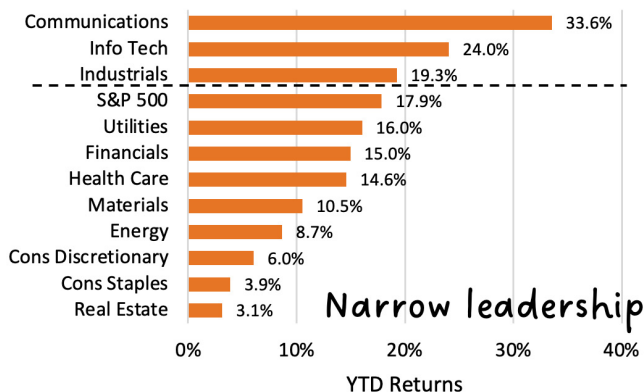
Source: Bloomberg. All data as of Dec 31 2025.

1 Year Price Returns



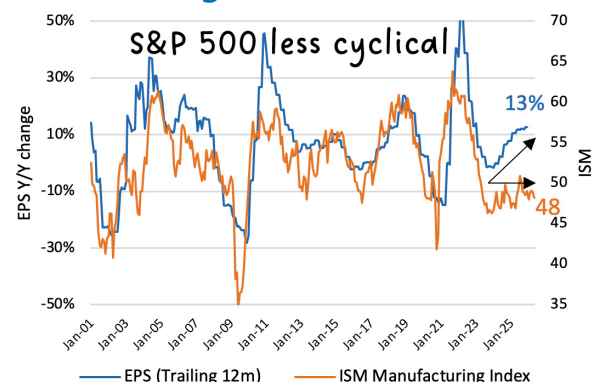
Source: Bloomberg. 1 year of daily data through Dec 2025.

S&P 500 Index Sector Price Returns



Source: Bloomberg. All data as of Dec 31 2025.

S&P 500 Index EPS and ISM Manufacturing



Source: Bloomberg. 26 years of monthly data through Dec 2025. ISM advanced 5 months.

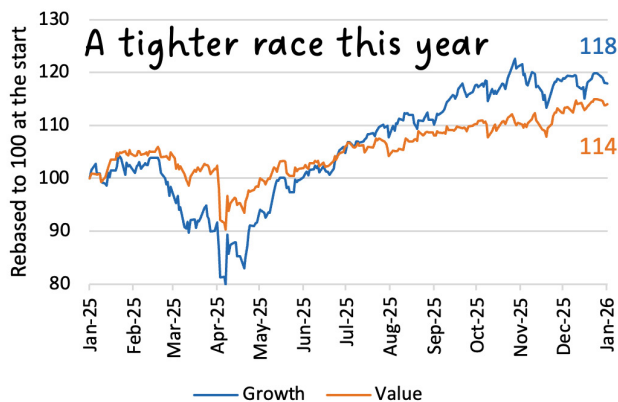


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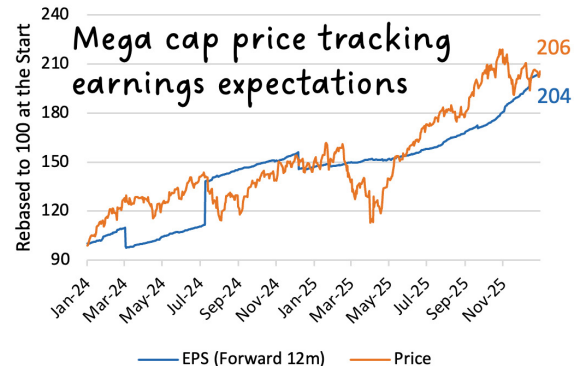
- ▶ Despite the dominance of mega cap stocks, most of which reside in the Russell 1000 Growth index, returns between the Russell style indexes were closer than expected. The Russell 1000 Growth index returned 18.6%, while the Russell 1000 Value index gained 15.9%.
- ▶ This narrower dispersion largely reflects index construction. Russell divides the Growth and Value indices so that each represents roughly half of the total market capitalization. Because the Growth index is heavily concentrated in a handful of very large companies, many traditional growth stocks are pushed into the Value index. This happened in the late 1990s as well.
- ▶ Many companies get split between the two indices, having representation in both indices. For instance, stocks typically considered Growth, such as Alphabet, Amazon, and Meta, are in the Value index.
- ▶ In addition, several traditional value-oriented sectors performed well. Financials benefited from a steepening yield curve, while Industrials gained from strong demand related to data center construction and AI infrastructure.
- ▶ Concentration at the top of the Growth index has increased sharply. At the end of 2025, the Russell 1000 Growth index held just 385 stocks, the smallest number in history, down from over 700 stocks in 2007.
- ▶ The Growth index is also more “growthy” than ever seen historically, based on fundamental measures. Over the past five years, the index’s average ROE was 34%, compared with a long-term average of 22% since 1995. Earnings have grown at a 17% annualized rate over the same period. We believe the index is more “growthy” as it is now dominated by a small set of asset-lite businesses with tremendous scale. The emergence of AI further amplifies the growth potential.

Russell 1000 Style Indexes



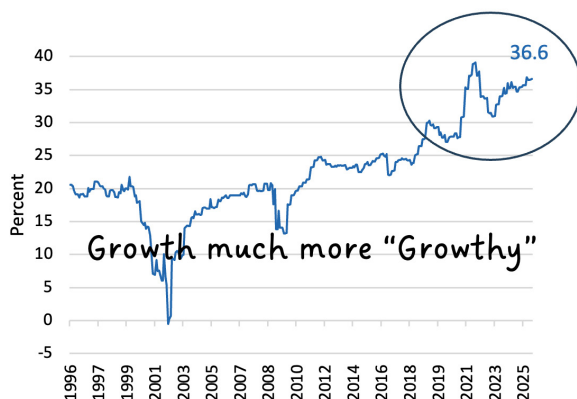
Source: Bloomberg. 1 year of daily data through Dec 2025.

Goldman Sachs TMT AI Basket Index



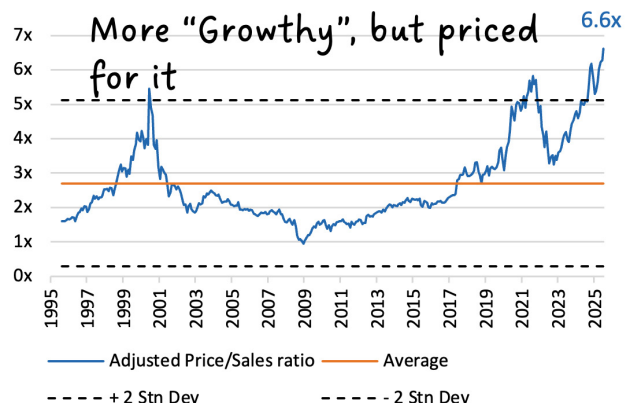
Source: Bloomberg. 2 years of daily data through Dec 2025. The index consists of companies that are pursuing AI or enabling new technologies across Technology, Media, and Telecom (TMT).

Russell 1000 Growth ROE



Source: Bloomberg. 30 years of monthly data through Dec 2025.

Russell 1000 Growth Index



Source: Bloomberg. 30 years of monthly data through Dec 2025.



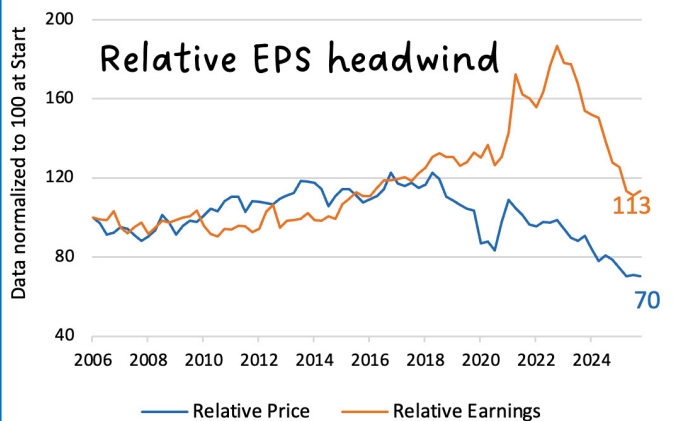
- ▶ In investing, performance is always relative. While the Russell small and mid cap indexes reached all-time highs late 2025 (and the S&P small and mid indices approached all-time highs), returns appeared pedestrian relative to large caps. Depending on the index, underperformance ranged from 5 to 12 percentage points.
- ▶ Index selection mattered for small and mid cap returns. The Russell indices produced low double-digit returns while their S&P counterparts delivered mid single-digit returns. The main difference between these indices is that S&P excludes non-earning companies, while Russell does not.
- ▶ The performance gap was most pronounced in small caps. The Russell 2000 index returned 12.8%, compared with 6% for the S&P 600 small cap index. Historically, this degree of S&P underperformance is rare and typically reverses the next year.
- ▶ Better Russell small cap performance was not a function of earnings. 40% of Russell 2000 constituents have negative earnings. In fact, an equal-weighted basket of non-earning companies outperformed the Russell 2000 in 2025. Investors may have been attracted to the optionality of non-earning companies, whose margins can turn positive quickly when demand improves. Fed rate cuts are also a welcome sign for non-earning companies. AI enthusiasm industries such as biotech, software, robotics, and energy (e.g. OKLO). Additionally, a number of non-earners, such as defense companies and those involved in quantum computing, robotics, and satellites, performed well.
- ▶ Size effects benefited Russell mid caps (+10.6%), which overlap meaningfully with the S&P 500. The S&P 400 mid cap index returned 7.5%. Unlike for large caps, Value modestly outperformed Growth in the mid cap universe, primarily due to sector composition. Mid cap Growth is heavily weighted toward Consumer Discretionary, where many stocks struggled. Mid cap Value, by contrast, included more highly cyclical industrial and technology firms that benefited from data center and AI supply-chain demand.
- ▶ Downward earnings revisions early in the year weighed on small and mid caps, as these more labor-intensive companies were constrained by slower hiring, which is a key driver of capacity growth. Looking ahead to 2026, easing cost pressures and labor challenges should create a more favorable backdrop for earnings growth.

Relative Performance: S&P 600/Russell 2000



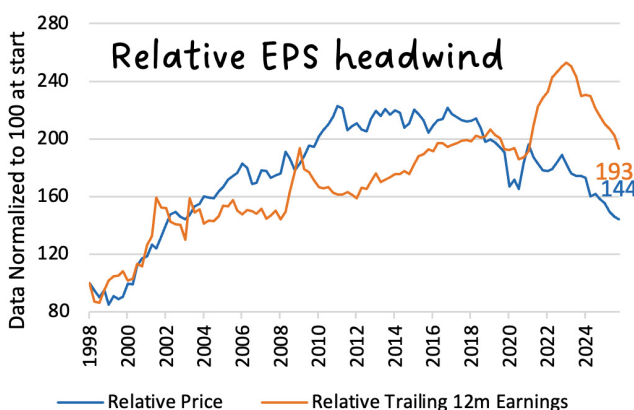
Source: Bloomberg. 30 years of monthly data through Dec 2025.

S&P 600 Index / S&P 500 Index



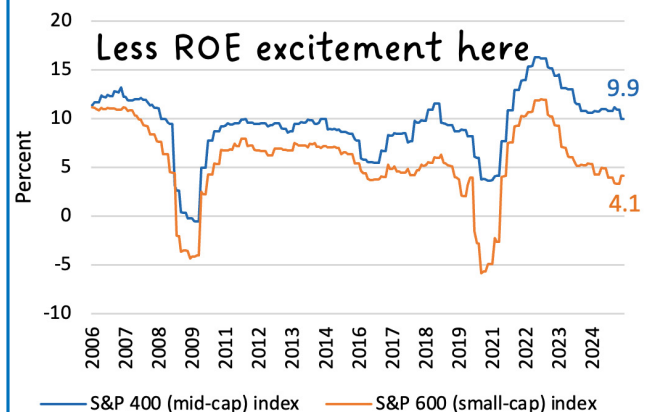
Source: Bloomberg. 20 years of quarterly data through Dec 2025.

S&P 400 Index / S&P 500 Index



Source: Bloomberg. 28 years of quarterly data through Dec 2025.

Return on Common Equity



Source: Bloomberg. 20 years of monthly data through Dec 2025.



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The Indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible.

Total Returns								
	December 2025	YTD	2024	2023	2022	2021	EPS Growth Estimate	
							2025	2026
S&P 500 Index	0.1%	17.9%	25.0%	26.3%	-18.1%	28.7%	13%	14%
S&P 500 Index Equal Weighted	0.4%	11.4%	13.0%	13.8%	-11.5%	29.6%	7%	9%
S&P 500 Value Index	0.4%	13.2%	12.3%	22.2%	-5.3%	24.9%	7%	8%
Russell 1000 Value Index	0.7%	15.9%	14.4%	11.4%	-7.6%	25.2%	7%	10%
S&P 500 Growth Index	-0.2%	22.2%	36.1%	30.0%	-29.4%	32.0%	14%	22%
Russell 1000 Growth Index	-0.6%	18.6%	33.4%	42.7%	-29.1%	27.6%	13%	20%
S&P 400 Index	0.1%	7.5%	13.9%	16.4%	-13.1%	24.8%	-1%	18%
S&P 600 Index	-0.1%	6.0%	8.7%	15.9%	-16.1%	26.8%	6%	16%
Russell 2000 Index	-0.6%	12.8%	11.5%	16.9%	-20.4%	14.8%	1%	20%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	27.3x	93%	22.1x	95%	21.8x	97%	3.5x	99%
S&P 500 Index Equal Weighted	20.8x	74%	16.8x	87%	13.2x	87%	1.8x	91%
S&P 500 Value Index	21.6x	92%	18.5x	100%	16.7x	91%	2.3x	100%
Russell 1000 Value Index	20.7x	90%	17.1x	94%	15.9x	94%	2.2x	98%
S&P 500 Growth Index	35.3x	96%	26.5x	94%	29.4x	98%	6.6x	98%
Russell 1000 Growth Index	39.1x	90%	28.6x	89%	30.4x	97%	6.4x	99%
S&P 400 Index	20.5x	50%	15.7x	58%	12.3x	73%	1.5x	94%
S&P 600 Index	21.3x	43%	14.5x	37%	11.4x	38%	1.2x	94%
Russell 2000 Index	61.8x	91%	22.6x	79%	15.4x	82%	1.5x	96%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.1%	3%	13.8%	100%	18.8%	96%	1.6	37%
S&P 500 Index Equal Weighted	1.9%	62%	9.5%	87%	12.0%	63%	2.6	51%
S&P 500 Value Index	1.8%	10%	11.1%	99%	14.6%	92%	2.0	41%
Russell 1000 Value Index	1.9%	2%	11.3%	95%	13.3%	71%	2.1	21%
S&P 500 Growth Index	0.5%	8%	20.5%	98%	29.2%	86%	0.7	35%
Russell 1000 Growth Index	0.5%	6%	18.0%	98%	36.6%	97%	0.6	14%
S&P 400 Index	1.4%	40%	8.1%	86%	9.9%	49%	2.6	52%
S&P 600 Index	1.7%	83%	7.3%	98%	4.1%	17%	4.0	84%
Russell 2000 Index	1.3%	26%	4.1%	48%	-0.3%	17%	4.9	88%

For Index Definitions see: [TouchstoneInvestments.com/insights/investment-terms-and-index-definitions](https://touchstoneinvestments.com/insights/investment-terms-and-index-definitions)

Source: Bloomberg. Percent ranks are based on 30 years of monthly data as of the end of December; EPS growth estimates based on consensus bottom-up analyst estimates



The Touchstone Asset Allocation Committee (TAAC) consisting of Crit Thomas, CFA, CAIA – Global Market Strategist, Erik M. Aarts, CIMA – Vice President and Senior Fixed Income Strategist, and Tim Paulin, CFA – Senior Vice President, Investment Research and Product Management, develops in-depth asset allocation guidance using established and evolving methodologies, inputs and analysis and communicates its methods, findings and guidance to stakeholders. TAAC uses different approaches in its development of Strategic Allocation and Tactical Allocation that are designed to add value for financial professionals and their clients. TAAC meets regularly to assess market conditions and conducts deep dive analyses on specific asset classes which are delivered via the Asset Allocation Summary document. Please contact your Touchstone representative or call 800.638.8194 for more information.

A Word About Risk

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